



NATIONAL ASSOCIATION OF LETTER CARRIERS

AFL-CIO

VINCENT R. SOMBROTTO
PRESIDENT

100 INDIANA AVENUE, N.W.
WASHINGTON, D.C. 20001
202/393-4695

TESTIMONY

OF

PRESIDENT VINCENT R. SOMBROTTO

OF THE

NATIONAL ASSOCIATION OF LETTER CARRIERS

BEFORE THE

SENATE GOVERNMENTAL AFFAIRS COMMITTEE

ON

SUPPLEMENTAL RETIREMENT PLAN

September 10, 1985

CONGRESSIONAL TESTIMONY

MR. CHAIRMAN. MY NAME IS VINCENT R. SOMBROTTO. I AM THE PRESIDENT OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS (NALC), A LABOR ORGANIZATION REPRESENTING OVER 271,000 MEMBERS WHO ARE EITHER PRESENTLY EMPLOYED AS CITY DELIVERY CARRIERS BY THE U.S. POSTAL SERVICE OR WHO ARE RETIRED FROM SUCH EMPLOYMENT.

THIS MORNING I WOULD LIKE TO SUMMARIZE MY TESTIMONY AND SUBMIT THE FULL TESTIMONY FOR THE RECORD. ALSO, I WOULD LIKE TO SUBMIT AN ADDITIONAL STATEMENT FROM FAIR, THE FUND FOR ASSURING AN INDEPENDENT RETIREMENT.

THE NALC WELCOMES THIS OPPORTUNITY TO TESTIFY ON S. 1527. WE APPRECIATE YOUR SUPPORT OF THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM, WHICH IS A MODEST EXPRESSION OF APPRECIATION FROM THE GOVERNMENT TO ITS EMPLOYEES. AS YOU KNOW, AN ADEQUATE RETIREMENT SYSTEM IS A SMALL PRICE TO PAY FOR QUALIFIED PERSONNEL.

THE BILL REFLECTS THE HARD WORK AND THOUGHTFUL APPROACH OF YOU AND YOUR STAFF. YOU HAVE SHOWN GOOD FAITH AND WE SUPPORT YOUR EFFORTS TO REACH AN ACCORD BY INVOLVING ALL PARTIES. SUCH A PROCESS IS CRUCIAL TO SUCCESS. THIS BILL IS A FRAMEWORK FROM WHICH TO WORK. SINCE POST-1983 HIRES FACE THE PROSPECT OF PAYING OVER 14% TO RETIREMENT STARTING NEXT YEAR, I HOPE WE CAN EXPEDITE THIS PROJECT.

WE SUPPORT THE THREE-TIERED APPROACH TO A NEW RETIREMENT PLAN CONSISTING OF SUPPLEMENTAL DEFINED BENEFITS, A VOLUNTARY THRIFT PLAN AND SOCIAL SECURITY. THERE ARE SOME AREAS WHERE OUR UNION WOULD MAKE SOME CHANGES.

PAGE 2

I WOULD LIKE TO START BY FOCUSING ON SOME OF THE DEFINED BENEFITS OF THIS BILL, WHICH IS TITLE I, SUBCHAPTER II, AFTER WHICH I WILL PROJECT ANNUITIES FOR OUR MEMBERS.

NALC MEMBERS ARE COMMITTED TO MAINTAINING AGE 55 WITH 30 YEARS SERVICE AS A FEATURE OF RETIREMENT. LETTER CARRIERS PERFORM PHYSICALLY GRUELLING WORK -- BACK AND FOOT PROBLEMS PLAGUE BOTH ACTIVE AND RETIRED CARRIERS. AGE 55 HAS BECOME MORE THAN AN IMPORTANT SYMBOL FOR US. IT REPRESENTS THE SUBSTANCE OF OUR JOB: HARD WORK.

WHILE MANY LETTER CARRIERS DO NOT HAVE 30 YEARS SERVICE AT AGE 55 AND STAY ON THE JOB, OTHERS TAKE ADVANTAGE OF THE RETIREMENT AVAILABLE. CONSEQUENTLY, THE SAVINGS FOR THE GOVERNMENT IN THIS AREA UNDER S. 1527 ARE MINOR, PARTICULARLY COMPARED TO THE IMPORTANCE IT HOLDS FOR OUR MEMBERS. ACCORDING TO CONGRESSIONAL RESEARCH SERVICE FIGURES, MAINTAINING AGE 55 RETIREMENT WITH 30 YEARS SERVICE REPRESENTS ONLY A 0.5% ADDITION TO THE PAYROLL COST TO THE GOVERNMENT. BUT TO OUR MEMBERS IT REPRESENTS AN IMPORTANT COMMITMENT TO THEIR WELL-BEING.

ACCORDING TO THE APRIL, 1985 HAY/HUGGINS COMPANY REPORT, OVERALL COMPENSATION FOR FEDERAL EMPLOYEES IS 7.3% BEHIND THE PRIVATE SECTOR. THE REPORT CONCLUDED THAT RETIREMENT AGE AND A FULL COLA ARE VITAL IN ORDER TO BE COMPETITIVE WITH THE PRIVATE SECTOR.

THE 55 RETIREMENT AGE WITH 30 YEARS SERVICE PROVIDES TWO ADDITIONAL ADVANTAGES. FIRST, IT ENCOURAGES WORKERS WHO

PAGE 3

HAVE EXPERTISE TO STAY UNTIL FULL RETIREMENT, WHICH BENEFITS THE POSTAL SERVICE. SECOND, IT IS AN INCENTIVE THAT ENABLES RETIREMENT AT 55 & 30, MAKING ROOM FOR NEW, YOUNGER EMPLOYEES. AS A RESULT, LETTER CARRIERS REPRESENT A GOOD MIX OF EXPERIENCE AND YOUTH. MANY ADMINISTRATORS RECOGNIZE THAT AN AGE 55 RETIREMENT POLICY CUTS BOTH WAYS AND SUPPORT IT. FOR EXAMPLE, E.I. DUPONT AND OTHER COMPANIES RECENTLY OPENED THEIR POLICY FOR EARLY RETIREMENT AND FOUND THAT IT HAD THE ADDED BENEFIT OF BOOSTING EMPLOYEE MORALE.

THE 2% PER YEAR PENALTY FOR EARLY RETIREMENT WOULD HAVE SEVERAL NEGATIVE EFFECTS: IT DETERS QUALIFIED APPLICANTS FROM SEEKING POSTAL SERVICE EMPLOYMENT AND IMPERILS THE STANDARD OF LIVING OF RETIREES. A SIMILAR CIRCUMSTANCE RESULTS FROM SECTION 8414, WHICH PROVIDES FOR A 5% PENALTY FOR EACH YEAR THE PARTICIPANT IS UNDER AGE 62 FOR THOSE WHO HAVE LESS THAN 30 YEARS SERVICE BUT MORE THAN 10.

SECTION 8413 OF THIS TITLE AFFECTS RETIREMENT BY ESTABLISHING A FORMULA FOR COMPUTING THE ANNUITY AS 1% OF THE AVERAGE OF THE HIGHEST FIVE CONSECUTIVE YEARS MULTIPLIED BY THE NUMBER OF YEARS OF SERVICE. THE COMBINATION OF THESE TWO FACTORS WOULD REDUCE ANNUITIES CONSIDERABLY. FOR THE AVERAGE LETTER CARRIER, A HIGH-FIVE DETERMINATION ALONE REDUCES THE SALARY LEVEL APPROXIMATELY 9%. MOREOVER, IT HAS A MULTIPLYING EFFECT OVER THE YEARS COMPOUNDED BY ITS NEGATIVE EFFECT ON THE COLA.

PAGE 4

I WOULD LIKE TO DEMONSTRATE THE EFFECTS OF THESE CHANGES ON OUR MEMBERS.

THE AVERAGE HIGH-THREE YEARS FOR A 55-YEAR OLD LETTER CARRIER TODAY WITH 30 YEARS SERVICE IS \$22,801. UNDER THE CURRENT SYSTEM THAT PERSON'S BASIC ANNUITY IS \$12,928; MINUS SURVIVOR ANNUITY AND HEALTH INSURANCE IT IS A MODEST \$912.43/MONTH OR \$10,949/YEAR. THAT AMOUNT IS FURTHER REDUCED BY TAXES.

THAT SAME PERSON RETIRING AT THE SAME AGE UNDER S. 1527 WOULD RECEIVE A BASIC ANNUITY OF \$8,740/YEAR (OR \$728/MO.) ONLY IF HE COULD AFFORD TO CONTRIBUTE A FULL 10% OF SALARY TO THE THRIFT PLAN. THE ANNUITY IS \$5,290/YEAR (\$440/MO.), WHICH IS CLOSE TO THE GOVERNMENT POVERTY LEVEL IF THE LETTER CARRIER IS UNABLE TO CONTRIBUTE TO THE THRIFT PLAN. AT \$8,740/YEAR, THE CARRIER IS RECEIVING 32% LESS THAN A CSRS RETIREE DESPITE CONTRIBUTING 126% MORE TOWARD RETIREMENT. NEITHER THE \$8,740 NOR THE \$5,290 INCLUDES DEDUCTIONS FOR HEALTH INSURANCE OR SURVIVOR ANNUITY, APPROXIMATELY \$1,900/YEAR. THAT RETIREE'S PROBLEMS ARE FURTHER COMPOUNDED BY NOT RECEIVING ANY SOCIAL SECURITY BEFORE AGE 62.

MR. CHAIRMAN, THOSE ANNUITIES ARE SUBJECT TO TAXES. THEY AMOUNT TO A RETIREMENT THAT IS TOO LOW FOR SUCH DEDICATED, PRODUCTIVE SERVICE. AND IF THE CARRIER PAYS A 5% PENALTY FOR LESS THAN 30 YEARS SERVICE, IT IS MUCH WORSE. WITH NO SOCIAL SECURITY BENEFITS BEFORE AGE 62, WE'RE FACED

PAGE 5

WITH A SYSTEM THAT PLACES MANY RETIREES NEAR THE POVERTY LINE AND WILL RESULT IN INCREASED EXPENSES BY THE GOVERNMENT IN THE FUTURE TO COVER FOR BASIC NECESSITIES.

OTHER EXAMPLES ARE AT AGE 62 WITH 37 YEARS SERVICE. UNDER CSRS A RETIREE WOULD RECEIVE \$15,180. IF A LETTER CARRIER WERE A NEW HIRE COVERED BY THIS SUPPLEMENTAL, THE BASIC ANNUITY LEVEL WOULD BE \$19,550 ~~IF~~ A FULL 10% THRIFT CONTRIBUTION WAS MADE FOR ALL 37 YEARS. IF NO CONTRIBUTION TO THE THRIFT IS MADE THE ANNUITY IS \$11,960. WHILE THE RETIREMENT OF \$19,550 LOOKS BETTER, REMEMBER THAT IT IS THE RESULT OF 37 YEARS OF CONTRIBUTIONS AT 15.8% TO RETIREMENT AS OPPOSED TO 7% UNDER CSRS. AGAIN, HEALTH INSURANCE, SURVIVOR ANNUITY AND TAXES ARE NOT INCLUDED.

AT AGE 62 WITH 30 YEARS EXPERIENCE, 19% OF THE RETIREE'S ANNUITY COMES FROM THE THRIFT PLAN, WHICH IS WHY THERE IS SUCH A DRASTIC DIFFERENCE FROM THE PERSON NOT CONTRIBUTING TO A THRIFT.

I MUST MAKE AN ADDITIONAL POINT HERE: THERE IS NOTHING TO PREVENT CONGRESS FROM REDUCING THE THRIFT PLAN LIKE IT HAS DONE WITH COLAS. JUDGING FROM THE LAST FEW YEARS, SUCH A REDUCTION WILL BE TEMPTING FOR "DEFICIT REDUCTION." THE 19% OF THE 62/30 RETIREE CAN CHANGE QUICKLY.

MOST CARRIERS HAVE SALARIES IN THE \$20-30,000 RANGE. YET THIS PLAN IS TILTED TO EITHER THOSE WHO MAKE MUCH MORE (SINCE THEY CAN UTILIZE THE ENTIRE THRIFT PLAN) OR THOSE UNDER \$20,000 (DUE TO THE SOCIAL SECURITY REPLACEMENT RATE).

THE SITUATION FOR SOMEONE WITH LESS THAN 30 YEARS EXPERIENCE (BUT MORE THAN 10 YEARS) IS MUCH WORSE BECAUSE OF

PAGE 6

THE 5% PENALTY FOR RETIREMENT BEFORE AGE 62. AS THE HAY STUDY POINTEDLY STATED: THE 5% PENALTY WOULD PUT OUR RETIREMENT BEHIND THE PRIVATE SECTOR.

WITH THIS MODEST ANNUITY, A FULL COLA BECOMES CRITICAL TO OUR RETIREES. SUBCHAPTER VI, SECTION 8462 ESTABLISHES A CPI MINUS 2% FORMULA, WHICH IS USED FOR THOSE ON RETIREMENT, DISABILITY AND SURVIVOR ANNUITIES.

ACCORDING TO THE ADMINISTRATION'S INFLATION PROJECTION FOR THE NEXT THREE YEARS, THERE WILL BE 12.6% INFLATION. USING CPI MINUS 2%, RETIREES' PURCHASING POWER FOR FOOD, CLOTHING, ET CETERA WOULD BE CUT BY ALMOST 50%. FOR SOME RETIREES, THIS RESULTS IN A TRAGIC "HEAT OR EAT" SITUATION.

WE SUPPORT FULL INFLATION PROTECTION IN THE NEW SUPPLEMENTAL TO PREVENT WHAT HAS HAPPENED OVER THE LAST FIVE YEARS WHEN OUR COLAS WERE CUT SEVERELY. RETIREES RECEIVED JUST ONE COLA IN THE PAST 25 MONTHS. BETWEEN FEBRUARY, 1981 AND MAY, 1984 OUR COLA WAS REDUCED BY MORE THAN 9%. SINCE THE VAST MAJORITY OF OUR RETIREES LIVE ON FIXED INCOMES, COLA CHANGES ARE A SWORD OVER THEIR HEADS.

AS I POINTED OUT, THE HAY REPORT UNEQUIVOCALLY STATED THAT TOTAL FEDERAL EMPLOYEE COMPENSATION IS BELOW THAT OF PRIVATE SECTOR EMPLOYERS IN VIRTUALLY EVERY ASPECT EXCEPT RETIREMENT AGE AND THE COLA, WHICH ARE THE PRIMARY REASONS THAT OUR COMPENSATION DOESN'T FALL DRASTICALLY BEHIND PRIVATE SECTOR PLANS.

FOR SOMEONE WHO IS LIVING ON A FIXED INCOME AND FACES

PAGE 7

THE PHYSICAL PROBLEMS OF THE ELDERLY, CPI MINUS 2 IS A MAJOR HARDSHIP. WE SEEK A DIGNIFIED RETIREMENT COMMENSURATE WITH THE JOB WE PERFORM.

SECTION 8418 DISCUSSES AGENCY CONTRIBUTIONS BUT IT IS AMBIGUOUS. WE WOULD LIKE A CLARIFICATION ON THE ROLE OF OPM AS WELL AS USPS CONTRIBUTIONS.

SINCE I HAVE BEEN EMPHASIZING PARITY WITH THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM, THE SAME IS TRUE IN THE EMPLOYEE CONTRIBUTION AREA.

PRE-1984 EMPLOYEES CONTRIBUTE 7% TO THEIR RETIREMENT PROGRAM (CSRS). UNDER THE PROPOSED SUPPLEMENTAL, NEW HIRES WOULD CONTRIBUTE 5.8% AS OF 1986 TO RETIREMENT. TO BE CONSISTENT, THE PAYMENT BY NEW HIRES SHOULD REMAIN ON A PAR WITH CSR. ACCORDING THE STATISTICS BY THE CONGRESSIONAL RESEARCH SERVICE, IF NEW HIRES CONTRIBUTED 7% OF PAY MINUS THE AMOUNT PAID FOR OASDI THE ENTIRE RETIREMENT SYSTEM BECOMES 1.1% LESS EXPENSIVE FOR THE FEDERAL GOVERNMENT. THIS ADDITIONAL REVENUE FROM EMPLOYEES WOULD ENABLE INCREASED DEFINED BENEFITS WITH NO ADDITIONAL COST TO THE GOVERNMENT.

IN ADDRESSING SUBCHAPTER III OF TITLE I, THE THRIFT PLAN, I WOULD LIKE TO REITERATE THAT I SUPPORT THE CONCEPT. IT'S AN IDEA WHICH MODERNIZES OUR RETIREMENT SYSTEM TO KEEP US COMPETITIVE. HOWEVER, TREASURY DEPARTMENT'S STATISTICS FOR THE SPRING OF 1985 SHOW THAT IRAS MAINLY ARE UTILIZED BY HOUSEHOLDS WITH REAL INCOME LEVELS OF MORE THAN \$40,000. THE AVERAGE LETTER CARRIER EARNS \$23,000/YEAR.

PAGE 8

THEREFORE, A SUPPLEMENTAL WHICH USES THRIFT SAVINGS TO MAKE IT ATTRACTIVE IS FINE. BUT ONE WHICH COUNTERPOSES A THRIFT TO IMPORTANT DEFINED BENEFITS WILL MAINLY BENEFIT THE MINORITY OF HIGHER PAID EMPLOYEES AT THE EXPENSE OF THE MAJORITY. AS I POINTED OUT EARLIER, LETTER CARRIERS CONTRIBUTING THE MAXIMUM TO THE THRIFT COULD WIND UP PAYING 15.8% OF PAY FOR RETIREMENT. IF WE DON'T PASS ANY SUPPLEMENTAL, THEY WOULD BE PAYING 12.8% (COMBINING SOCIAL SECURITY WITH CSRS PAYMENTS) AND RECEIVING MORE THAN THEY WOULD FROM THE SUPPLEMENTAL!

IN THE CASE OF S. 1527, CRS ESTIMATES THAT THE THRIFT PLAN AMOUNTS TO 6% OF THE ENTRY AGE NORMAL COST AS PERCENT OF PAYROLL. THAT MONEY COMES FROM THE POSTAL SERVICE. WE SUPPORT CUTTING-BACK ON THAT PORTION OF THE COST TO THE GOVERNMENT, WHICH WOULD BE CONSISTENT WITH THE PRIVATE SECTOR AND PRESIDENT REAGAN'S TREASURY II PROPOSAL. WE WOULD LIKE MORE MONEY IN DEFINED BENEFITS AND ARE EXAMINING AVAILABLE OPTIONS, SUCH AS A 50% MATCH ON CONTRIBUTIONS UP TO 6% OR A 100% MATCH ON 3% CONTRIBUTION.

SUBCHAPTER IV, TITLE I DESCRIBES THE BENEFITS AVAILABLE TO SURVIVORS OF DECEASED PARTICIPANTS AND FORMER PARTICIPANTS.

THE WELL-BEING OF A SPOUSE IS IMPORTANT TO LETTER CARRIERS. IN ORDER TO RECEIVE SURVIVOR BENEFITS, RETIREES PAY APPROXIMATELY 10% OF THEIR ANNUITY YEARLY.

PAGE 9

S. 1527 CHANGES THE BENEFITS FOR PRERETIREMENT SURVIVING SPOUSE FROM 55% OF THE UNREDUCED ANNUITY TO 50% OF THE REDUCED ANNUITY OF THE EMPLOYEE'S PENSION (PLUS ANY SOCIAL SECURITY BENEFITS PAYABLE). FURTHERMORE, BENEFITS CAN NOT BE COLLECTED BEFORE THE DATE AT WHICH THE LETTER CARRIER COULD HAVE RETIRED.

IN THE CASE OF A 42-YEAR OLD WIDOW WHOSE HUSBAND DIED AT AGE 45, SHE WOULD NOT BE ABLE TO COLLECT SUPPLEMENTAL BENEFITS UNTIL SHE REACHED AGE 52. THIS IS A DRASTIC CHANGE FROM CURRENT CIVIL SERVICE RETIREMENT SYSTEM WHICH HAS NO AGE REQUIREMENT. SHE WOULD COLLECT SOCIAL SECURITY IF HER HUSBAND QUALIFIED, BUT HER COMBINED ANNUITY WOULD BE BELOW THE POVERTY LINE.

FOR SURVIVING SPOUSES OF RETIRED CARRIERS, S. 1527 DIMINISHES THE ANNUITY FROM THE CURRENT CSRS LEVEL OF 55% OF THE UNREDUCED ANNUITY TO 50% OF THE REDUCED ANNUITY MINUS ANY SOCIAL SECURITY PAYMENTS.

IN MONETARY TERMS, S. 1527 PROVIDES THE SPOUSE SURVIVOR OF A LETTER CARRIER WITH 10 YEARS SERVICE WHO DIED AT AGE 45 \$56/MONTH, AND IT WOULD NOT BE PAID FOR 10 YEARS. WE CAN NOT SUPPORT THIS CHANGE OR THE TOTAL ELIMINATION OF CHILDREN AND STUDENT SURVIVOR BENEFITS. THE MAJORITY OF SPOUSE SURVIVORS ARE WOMEN OVER AGE 45. IT PUTS THEM BELOW THE FAMILY POVERTY LEVEL AND IN AN ALMOST IMPOSSIBLE POSITION: THEY MUST FIND WORK AT AN AGE WHEN MANY EMPLOYERS WILL NOT EVEN GIVE THEM A

PAGE 10

FAIR CHANCE. IT INSTITUTIONALIZES THE ABYSMAL SITUATION TERMED THE "FEMINIZATION OF POVERTY" WHEREIN ONE OF THE POOREST STATISTICAL GROUPINGS IN AMERICA TODAY IS ELDERLY WOMEN.

THE SAVINGS FOR THE GOVERNMENT HERE ARE MINIMAL, YET THE HARDSHIPS CREATED ARE MAXIMUM. IN EITHER THE PRE-RETIREMENT OR RETIREMENT CASE, IT WOULD BE MORE ACCEPTABLE TO REINSTATE THE FORMULA USED BY THE CSRS.

ON THE TOPIC OF DISABILITY RETIREMENT (SUBCHAPTER V, TITLE 1), WE FULLY CONCUR WITH THE ELIGIBILITY PERIOD OF 18 MONTHS. HOWEVER, THERE ARE AREAS WHERE WE HAVE DIFFERENCES.

ONE OF THOSE IS SECTION 8446, WHICH ALLOWS THE USPS TO OFFER OTHER CRAFT EMPLOYMENT IN LIEU OF RETIREMENT. WE WRESTLED WITH THIS PROBLEM IN 1969 AND 1970 DURING DISCUSSION OF THE POSTAL REORGANIZATION ACT. CONGRESS DECIDED THAT IT WOULD BE A BAD POLICY. IT CAME UP AGAIN IN 1981 AS PART OF THE "GRAMM-LATTA" BUDGET. ONCE AGAIN, HOUSE-SENATE CONFEREES AGREED THAT IT WAS DISRUPTIVE TO THE POSTAL SERVICE BECAUSE IT BLURS JOB DISTINCTIONS IN THE POSTAL SERVICE AND WOULD CREATE HAVOC.

FOR EXAMPLE, A LETTER CARRIER WHO IS IMMOBILIZED IS PUT INTO A CLERK'S POSITION. WHO HAS SENIORITY AND WHAT

PAGE 11

LEVEL/STEP RATE IS USED? WHAT IS THE WAGE RATE? DOES THE CARRIER NEED TO TAKE AN EXAMINATION? I CAN FORESEE FROM THE EXPERIENCE OF OTHER UNIONS A SITUATION OF ENDLESS, COSTLY GRIEVANCES AND LAWSUITS AND DISGRUNTLED EMPLOYEES WHO SEE BETTER PAYING JOBS OR CHANCES FOR ADVANCEMENT TAKEN AWAY. OR, YOU MAY PUT LETTER CARRIERS IN THE POSITION OF DOING CLERKS' WORK, A SITUATION WHICH IS DETRIMENTAL TO THE EFFICIENCY OF THE EMPLOYEE AND THE POSTAL SERVICE.

THE COMPULSORY MEDICAL EVALUATION SECTION IS NOT CLEAR. SHOULD A RETIREE BE FOUND TO BE NO LONGER DISABLED, WHAT RESPONSIBILITIES DOES THE USPS HAVE IN FINDING A JOB, FOR EXAMPLE.

SECTION 8450 ESTABLISHES AN EMPLOYEES' DISABILITY INSURANCE FUND IN THE U.S. TREASURY AND REQUIRES AGENCIES TO MAKE PAYMENTS TO THE FUND FROM SALARY APPROPRIATIONS. HOWEVER, A THIRD PARTY WOULD ADMINISTER PAYMENTS. THIS WOULD ADD EXPENSIVE, PRIVATE-SECTOR PARTICIPATION RATHER THAN CONTINUING THE CURRENT OPM OPERATION. THE POTENTIAL FOR CONFUSION AND ENTANGLED PAPERWORK IS ENHANCED.

IN THE STEVENS-ROTH BILL, LETTER CARRIERS COVERED UNDER THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM CAN TRANSFER TO THE NEW SYSTEM. WE AGREE THAT BOTH SYSTEMS NEED TO BE FINANCIALLY SOUND AND UNDER ONE ROOF. HOWEVER, WHEN A SYSTEM AS COMPLEX AS THIS SUPPLEMENTAL IS STARTED, IT SEEMS PRUDENT TO WAIT FOR A COUPLE YEARS TO SEE WHAT PROBLEMS

PAGE 12

APPEAR. NO MATTER HOW MUCH WE TRY TO HEAD-OFF TROUBLE, WE KNOW THAT WE CAN NOT PREDICT ALL POSSIBLE PROBLEMS.

I'D LIKE TO CITE AN EXAMPLE FOR YOU. RECENTLY THE STATE OF MARYLAND ADOPTED A NEW RETIREMENT SYSTEM FOR ITS EMPLOYEES. MARYLAND ALLOWED EMPLOYEES COVERED UNDER THE PREVIOUS SYSTEM THE OPTION OF TRANSFERRING. THERE WAS AN IMMEDIATE RUSH TO TRANSFER, WHICH IN ITSELF CAUSED PANIC AND CONFUSION. THEN, WHEN PEOPLE REALIZED WHAT THE "SMALL PRINT" CHANGES WERE, THEY RUSHED TO CHANGE BACK. THE RESULT WAS A NIGHTMARE.

IN ADDITION, THERE WOULD BE LEGISLATIVE CONSIDERATIONS INVOLVED IN OPENING UP THE SOCIAL SECURITY ACT. TRANSFERS RAISES THE POSSIBILITY OF THE SENATE FINANCE COMMITTEE SHARING JURISDICTION WITH GOVERNMENTAL AFFAIRS ON S. 1527.

WE SHOULD WAIT A COUPLE YEARS, EXAMINE THE MYRIAD OF PROBLEMS INVOLVED IN TRANSFERS, AND THEN PROCEED CAUTIOUSLY.

ONE OMISSION FROM THIS BILL: HOW TO HANDLE THE PROBLEM OF RE-HIRES. HOW DOES THE SUPPLEMENTAL PLAN HANDLE SOMEONE WHO HAS PREVIOUS SERVICE IN THE GOVERNMENT AND HAS CONTRIBUTED TO THE CIVIL SERVICE RETIREMENT PLAN BUT HAS BEEN REHIRED AS A NEW EMPLOYEE AND WILL BE COVERED BY THE NEW SUPPLEMENTAL PLAN? THE BILL DOES NOT ADDRESS THIS ISSUE AND IT WILL BE AN IMPORTANT ISSUE FOR A LARGE NUMBER OF GOVERNMENT EMPLOYEES, SOME OF WHOM ARE ALREADY IN THE EMPLOY OF THE GOVERNMENT. IN CERTAIN CASES, SOME OF THESE INDIVIDUALS ARE VESTED IN THE CSRS.

PAGE 13

AS YOU CAN SEE MR. CHAIRMAN, THERE ARE AREAS WHERE WE BELIEVE BENEFITS MUST BE RESTORED TO CURRENT LEVELS AND IMPROVED. AND THERE ARE AREAS WHERE WE THINK LETTER CARRIERS CAN GIVE MORE. IF YOU HAVE ANY QUESTIONS, I WILL BE GLAD TO ANSWER THEM.

THANK YOU.